

# BTI 2012 | Saudi Arabia Country Report

|                          |      |             |              |   |
|--------------------------|------|-------------|--------------|---|
| <b>Status Index</b>      | 1-10 | <b>4.35</b> | # 102 of 128 |   |
| Political Transformation | 1-10 | 2.77        | # 123 of 128 | ➔ |
| Economic Transformation  | 1-10 | 5.93        | # 55 of 128  | ➔ |
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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**Key Indicators**

|                          |        |      |                                |       |                      |    |       |
|--------------------------|--------|------|--------------------------------|-------|----------------------|----|-------|
| Population               | mn.    | 27.4 | HDI                            | 0.770 | GDP p.c.             | \$ | 22713 |
| Pop. growth <sup>1</sup> | % p.a. | 2.4  | HDI rank of 187                | 56    | Gini Index           |    | -     |
| Life expectancy          | years  | 74   | UN Education Index             | 0.689 | Poverty <sup>3</sup> | %  | -     |
| Urban population         | %      | 83.6 | Gender inequality <sup>2</sup> | 0.646 | Aid per capita       | \$ | -     |

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The most recent phase of political reform in Saudi Arabia ended in 2005; accordingly, little took place on this front between February 2009 and January 2011. Municipal elections originally planned for 2009 have been repeatedly postponed. As there is little organized political opposition to the al-Saud, this status quo could persist for many years to come.

Nor have major new economic reforms emerged, although some loose ends have been tied up with respect to existing reform initiatives, such as adjusting customs and product standardization procedures to meet WTO requirements, or gradually strengthening the stock market regulator created in 2004. The primary economic initiatives have taken the form of large projects and new, project-oriented enclave institutions such as the King Abdullah City for Atomic and Renewable Energy, created in 2010.

Despite the global economic crisis, the kingdom achieved reasonable economic growth rates during the period under review, but only by means of a significant fiscal expansion that could lead to budget deficits in the long run. In 2009, the country attracted considerable amounts of foreign direct investment, but most of this was limited to large, often state-supported projects in a small number of fields such as heavy industry and real estate.

The most significant reform efforts during the last two years have arguably focused on educational and judicial issues. In both areas, King Abdullah has started ambitious modernization programs. It is too early to judge results, however, as the reforms will require the revamping of complex and slow-moving bureaucratic apparatuses, a process which even under the best of circumstances will take several years. The creation of the King Abdullah University of Science and Technology, which draws on foreign faculty and students and allows gender mixing on its campus, is emblematic of the king's ambition to engage in sociocultural modernization through a limited number of flagship projects.

## History and Characteristics of Transformation

The Kingdom of Saudi Arabia was formally declared by King Abd al-Aziz of the Central Arabian al-Saud clan in 1932, after a nearly three-decade campaign of conquest covering most of the Arabian Peninsula. Formally, the state is an absolute monarchy ruled by the sons of Abd al-Aziz, who died in 1953. The first Council of Ministers was created in 1953, at a time when oil income had started to play an increasingly vital role in the Saudi process of state formation. Subsequently, the national administration expanded rapidly, state services and the population's standard of living were augmented substantially, and the state began playing an increasingly strong, direct role in people's lives.

Over the same period, remnants of national and local consultative councils – mostly carryovers from the politically more developed Western Hijaz region – withered away and eventually disappeared, leaving a massive bureaucracy as the main formal instrument of rule. Informally, the system was stressed by networks of personal patronage, distribution and favoritism controlled by the sprawling al-Saud family. The clergy, traditionally the al-Saud's main coalition partner, became increasingly bureaucratized and dependent on the ruling family's patronage, while remaining an essential legitimating prop of al-Saud rule.

The large-scale oil-fuelled rentier economy developed in the post-WWII period led to the creation of a new business class of merchant and contractor families close to the royals. The kingdom experienced some political and labor unrest in the 1950s and 1960s at the heyday of Arab nationalism. However, the al-Saud managed both to suppress strikes in the (oil-rich) Eastern Province and to avert a number of military coup attempts. Official announcement of timid reforms – appointment of a consultative council, drafting of a basic law – usually came to nothing. One of the persistent advantages associated with the al-Saud's political survival has been their ability to embed themselves deeply in significant parts of the administration, especially in the security services, where hundreds of princes hold offices. Their presence in the country's business sector is also considerable, even if many of them act only as facilitators and commission-takers.

The kingdom achieved its highest GDP per capita to date in the early 1980s, with this figure reaching about \$18,000 in 1981, the year that oil prices hit their peak in real terms (although due to the size of the oil sector and a temporary peak in infrastructure spending, this number does not quite reflect the country's actual standard of living). Since that time, the overall economy has for prolonged periods been unable to keep pace with demographic growth, which for many years was above 4%. The post-2003 economic expansion has allowed for increased public employment and an improvement in public services, but given a national population of nearly 20 million, resources are nonetheless stretched more thinly than they were in the early 1980s.

The regulatory framework for business has been improved in recent years, but can in practice still be applied inconsistently. Nonetheless, the Saudi private sector has matured considerably in recent decades, and has more sophisticated managerial structures than most of its peers in the Middle East and North Africa (MENA) region. It has been dealt a heavy blow by the international financial crisis, but the government still counts on it for long-term job creation and diversification.

After the seizure of the Grand Mosque in Mecca in 1979, the regime put special emphasis on the enforcement of conservative social mores, yielding more influence to religious conservatives in education, domestic and international cultural policies and in the enforcement of public order. Nonetheless, after the 1990 – 1991 Gulf War, Islamists and liberals alike were disenchanted with the al-Saud, their apparent inability to protect the realm without U.S. aid, and their generally authoritarian and non-transparent governance. A number of political petitions from liberal and Islamist sources were sent to the royals, and in 1992 King Fahd was forced into a number of symbolic concessions. These included:

- A “basic law.” This set out basic features of the political system and endowed some basic rights with a legal foundation, although without properly articulated recourse mechanisms.
- The creation of a Majlis al-Shura. This is an appointed consultative body tasked with the review of draft legislation, and has been enlarged three times since (from 60 to 150 members). Although the Majlis is not representative and has a certain technocratic bias, it has acquired increasing importance in comparatively technical fields of legislation.
- A law of regions, setting out basic structures of governance for the kingdom’s 13 regions.

Following these changes, the political situation calmed somewhat, not least due to the fundamental splits within the opposition groups. While liberals had been socially isolated all along, popular Islamist dissidents were either co-opted or oppressed by the regime. Two prominent oppositionist preachers were detained from 1995 to 1999, but both have since moved much closer to the regime.

Crown Prince Abdullah became the effective head of government when a stroke incapacitated King Fahd in 1995. Abdullah gained a higher political profile after 1998, initiating a number of economic reforms beginning in 1999, with somewhat mixed results. In August 2005, he became king following Fahd’s death. Abdullah is popular and is generally seen as a driver of both socioeconomic and political reforms, although he has moved more cautiously on the latter.

The recent economic boom has relieved the pressure to enact political reform. Moreover, wide strata of Saudi society are conservative in social and political terms, and despite increasing social differentiation, the level of political mobilization is rather low. This augurs relatively well for medium-term political stability, but not for reform prospects. Therefore, it is still too early to assess the impacts on Saudi Arabia of major regional events such as the Tunisian and Egyptian revolutions, though it seems safe to assume that only minor effects will be visible. Another question is whether uprisings in Bahrain will spill over to Saudi Arabia’s Shi’ite population; this

might lead to a rise in protests and demands for better living conditions for Saudi Arabia's comparatively deprived minority.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Saudi Arabia has not witnessed significant violent conflict within its borders since the 1930s. Nearly all regions and tribes nowadays recognize the sovereignty of the al-Saud state, and there is rather broad consensus over the role of the al-Saud as lynchpin of the polity. The domestic terror problem, which peaked between 2003 and 2005, has been largely overcome, although the August 2009 attack on the deputy minister of interior, Prince Mohammad bin Naif, reflects al-Qaeda's residual capacity to disrupt, and future transnational security threats from Yemen or Iraq cannot be excluded.

Saudi citizens are Muslim by definition; no indigenous non-Muslim groups live in today's kingdom. The Shi'ite minority – Twelver Shi'ites in the East and Ismailis in the South – is denied certain cultural rights. They also suffer from socioeconomic deprivation, although King Abdullah has focused more government attention on underdeveloped regions in the context of recent budget increases. There is an implicit ethnic hierarchy in Saudi Arabia, with Najids from the Central Province on top, Hijazis and Eastern Province Sunnis second, and the rest below. Najd is associated with the Hanbali Islamic school of law and its Wahhabi interpretation. Non-Hanbali religious practices have become more tolerated under Abdullah, but the public and collective organization of non-Sunni Islam still functions under certain constraints (and occasionally meets with violence from vigilantes and the religious police).

Question  
Score

Monopoly on the  
use of force

8

State identity

6

Some Shi'ite oppositionists in exile have doubts about the al-Saud state as it is organized today, but secession is not today openly advocated, despite the recent unrest in neighboring, predominantly Shi'ite Bahrain. Some members of the jihadi political fringe do not accept the al-Saud state as a legitimate entity, but they do not have a clear alternative vision.

The Saudi state is officially defined as Islamic, with the Quran as its constitution. Senior Wahhabi 'ulama are part of the state apparatus and wield considerable influence on issues of public morals, personal status law, education and culture – although during the last two to three years they have come under increasing pressure from the royal court to scale down their puritanical rhetoric. There is no freedom of worship for non-Muslims (although tolerance of actual practice varies by nationality of the practitioners).

Secularism continues to be beyond the pale of Saudi discourse, both officially and to a large degree within the broader society.

Officially, all legislation is to be based on Shari'ah. In practice, however, significant parts of the administration are run according to secular principles (including the regulation of Saudi banks). Inopportune fatwas have been repeatedly ignored by the regime, or the clergy were alternatively forced to issue new verdicts acquiescing to new facts. On economic matters, Shari'ah courts are often circumvented through administrative tribunals; specialized commercial courts are currently being established, giving the religiously trained judges more influence but also forcing them to apply positive law.

The Saudi state is large, and the administration reaches out even to remote villages, as do, increasingly, the state's basic services. However, the bureaucracy is very bloated, with an (informal) estimate of 2 million state employees.

The "infrastructural power" of the state is unevenly developed, as it has difficulties in enforcing certain economic rules, applying regulations consistently and gathering information about its constituents. For example, residency registration and the introduction of residential addresses have begun only in recent years, and has proceeded haltingly. As a rentier state, Saudi Arabia has no comprehensive tax system, and the government's information about economic activities can be deficient.

## 2 | Political Participation

There are no democratic elections at the national level. Municipal elections were held on a nationwide scale for the first time in spring 2005. However, women were excluded, and only half of the members of the rather toothless municipal councils were chosen by popular vote. The prospect of national elections has been mooted,

No interference of religious dogmas

2

Basic administration

7

Free and fair elections

1

but these are unlikely to take place any time soon, in part because the economic boom has taken political pressure off the leadership. The next round of municipal elections, originally scheduled for 2009, has been repeatedly postponed – as of the time of writing, until at least 2011 – in order that further “analyses” can be conducted beforehand. Recent regional unrest could push the regime to hold these elections soon. Only serious unrest would push the regime to organize (controlled) national elections.

As there are no political officials elected on the national level, there is no influence which could be wielded through this channel. Currently, the only elected persons with some influence in society are the heads of chambers of commerce, but they tend to represent large families engaged in business.

Effective power to govern

1

Parties and unions are not allowed, and formal associations require royal fiat in order to obtain a license. The regime has allowed some “civil society” activities since 2003. In the voluntary sector, there have been bottom-up initiatives; but although some of these have addressed socially difficult topics, none has ventured into open political advocacy. Some political interest groups – professional associations and a human rights group – have been licensed in recent years, but these are state-controlled, and the drive to license new associations outside of the welfare sector has slowed in the last three to four years.

Association / assembly rights

2

Saudi citizens today have much more space for discussing cultural and social issues than was the case before King Abdullah came to power. This is significant, as these issues are to some extent tied up with the political identity of the state. Little public debate about substantial political issues occurs, however; while the outcome and relevance of municipal elections can be criticized, for example, no journalist has dared to openly demand national elections. Similarly, criticizing princes in the media remains a red line no one dares to cross.

Freedom of expression

2

Newspapers are controlled through the Ministry of Information, over which the Ministry of Interior has considerable control. Editors-in-chief must be approved by the state. The press has few statutory guarantees against encroachments when they occur (Art. 39 of the 1992 “basic law” makes a pretty open case for censorship). A minimal pluralism of opinions is guaranteed by the fact that different newspapers are controlled by different factions of the royal family, which tend to have different ideological orientations.

In late 2010, the government moved to increase its control over independent blogs and websites, demanding that these too obtain official licenses.

### 3 | Rule of Law

The king is the highest judicial, executive and legislative authority, and senior princes can avoid the judiciary's reach more or less at will. The official clergy – although appointed by the king – has been given some limited autonomy to run the judicial system through the Supreme Judicial Council and the new Supreme Court, a situation that has elicited some displeasure on the part of non-royal Saudi elites. The clergy also exerts some control over social and political questions referred to them by the king through the Council of Senior 'Ulama. This relative autonomy seems to have been gradually eroded by recent judicial reforms, however.

Separation of powers

1

Large parts of the functional bureaucracy are staffed by commoners, and commoners dominate technical posts. Intervention by the royal family in day-to-day matters is limited as long as no immediate political or economic interests are at stake.

As far as a judiciary run by the religious establishment can be considered to be independent, Saudi Arabia's judiciary has considerable day-to-day autonomy. The regular administration has very little leeway to control (or predict) judicial goings-on. In the course of judicial reform and a functional differentiation of courts, however, the system has gradually been subjected to the expanding influence of positive law, set by the Council of Ministers under the king's control.

Independent judiciary

4

Judicial professionalism is often limited, especially when it comes to comparatively technical areas such as commercial law, although gradual improvements are to be expected in the course of current training initiatives.

Judicial corruption occurs, but is less rampant than in many other MENA countries. When it comes to political questions or decisions in which royal family interests are involved, the judiciary traditionally yields to royal pressure. Administrative tribunals function reasonably well.

Mechanisms of intra-state accountability and investigation exist in principle, but are not activated very often. These have become somewhat more frequent during the last two to three years, however, as seen several major scandals related to shady land deals have emerged.

Prosecution of office abuse

4

Princes are very rarely removed from offices – it usually takes a major, publicly visible offense for that to happen. Commoners are fired (and sometimes tried) more frequently, but corrupt officials with solid patronage links to the royal family can cling to office for decades without having to fear retribution.

Public naming of corrupt officials is still fairly rare, but has taken place in the course of major crises such as the catastrophic floods in Jeddah in late November



2009, which were caused by deficient infrastructure linked to corruption in the local administration.

State organizations are occasional subjected to clean-ups when new ministers take office, but the range of such reviews is usually restricted.

The Saudi state does not usually resort to mass violations of existing civil rights, as other Arab authoritarian states are wont to. Unlawful arrests are rather rare. However, legal rights are very limited: For example, there is no right of assembly, of freedom of opinion, of organization or of religion, among other gaps. A few rights are enshrined in the 1992 basic law, such as privacy of residence and mail correspondence, and the “nulla poena sine lege” concept. They do not include basic political rights, however.

Civil rights  
4

Discrimination, both de facto and de jure, still is rampant in the kingdom. Women are strongly disadvantaged in public life and in the judicial system. Saudi Shi’ites too face significant discrimination, although their position in terms of public service provision and freedom of worship has improved somewhat under King Abdullah.

Effective access to judicial redress is limited; the state-sponsored human rights association has taken up numerous individual cases of rights violations, but mostly limited to administrative rather than political rights violations.

#### 4 | Stability of Democratic Institutions

Saudi Arabia possesses no democratic national institutions in the Western sense. There are clientelist mechanisms of informal accountability, however, insofar as princes are keen to react to public sentiment and to be perceived as benevolent patriarchs. The various groups in society have different degrees of access to these mechanisms, however. The municipal councils, the only elected public bodies, have done little thus far and have found only limited resonance in society.

Performance of  
democratic  
institutions  
1

Social and political links between the citizens and the government are articulated through patron-client relationships or through informal groups such as tribes, families and professional hierarchies. Theoretically, any male citizen or foreign national may express an opinion or a grievance at a majlis, an open-door meeting held by the king, a prince or any other important local or regional official. King Abdullah often holds meetings with the citizens throughout the country. Ministers and governors can also, theoretically rather than effectively, be directly approached at any majlis. In practice, senior-level majlises are tightly controlled affairs.

Commitment to  
democratic  
institutions  
1

## 5 | Political and Social Integration

There is no party system in Saudi Arabia. Attempts to set up parties in the past have been suppressed. Not even party-like entities, such as an independent human rights association initiated in 2004, have been tolerated. That said, there is no historical tradition of party politics in the country and societal demand for such an innovation thus far seems limited. The only (highly imperfect) substitute for parties are the societal clienteles attached to various centers of power, such as tribal groups in the National Guard or the advisors, hangers-on and clients attached to the various senior princes.

Party system  
1

Associational life is controlled by the state. There is a lively voluntary sector that attends to various social problems, although its socioeconomic base lies primarily in the upper and educated middle class. Many of the larger charities have a strong Islamist influence, involving both Salafi and Muslim Brotherhood-inspired networks. Above a certain size, associations informally require a royal patron to be able to function.

Interest groups  
3

More modern functional-corporatist interest groups (professional associations, women's and youth associations, etc.) are state-controlled, relatively bloodless and do not reach out sufficiently to their ostensible target groups.

That said, many interests are represented within the state, through various functional agencies, or through princes' informal clientelist networks. This serves as a partial substitute for the role of associations (although under stronger political restraints, of course).

There is no survey data on Saudi support for democracy. Impressionistically, it seems that interest in formal democratic mechanisms is limited in large parts of society. Turnout for the municipal elections in 2005 was very low, with participation rates in some locations falling under 15% of the eligible population. For the time being, the consensus on the rule of the al-Saud appears more established than is interest in substantive democratization. Recent petitions calling for constitutional democracy have found some support, but far below the level witnessed in poorer Arab monarchies.

Approval of  
democracy  
n/a

While formal associational life remains strictly state-controlled, informal help networks can be extensive. Usually based on friendship, kinship, tribe or locale, they remain functionally undifferentiated. Trust between strangers is rather low in the kingdom, and society remains fragmented into regional and (intra-Islamic) denominational sub-groups. There is little tradition of formal association, and social bonds, even if powerful, are often vertical. Society has been demobilized by an omnipresent provider state.

Social capital  
3

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

A Gini coefficient for Saudi Arabia is not available, but from a historical perspective, inequality seems to have become somewhat worse after the 1980s oil boom, due both to population growth and the state's limited employment provision. King Abdullah's regime has taken steps to alleviate poverty, based on a national poverty strategy that was announced in rather general terms in mid-2005 and ratified in October 2006. These steps have included an augmented focus on rural development in subsequent budgets, increased social security expenditure and a national housing program. Effects thus far have been modest, in part because they were counteracted by significant inflation, especially within the housing market, in the course of the recent oil boom.

Socioeconomic  
barriers  
4

Unlike other MENA states outside the Gulf region, public services (utilities, education, health, housing credit) remain in many cases free or subsidized. Job market opportunities have improved somewhat, but employment generation remains insufficient to lower the country's very high dependency ratio (an estimated six persons per wage earner). Recent poverty rankings are not available; the 2005 UNDP Human Development Report ranked Saudi Arabia at 32nd place out of 103 developing countries with respect to the Human Poverty Index (with an index value of 14.9%). Income distribution data are not available.

The Gender Development Index ranks the country at 128th worldwide (with a score of 0.76) with respect to treatment of women, based on 2008 data. This reflects good access to education and health, but also an exclusion from large parts of the job market and public life. Poorer groups in the vast kingdom's rural and peripheral areas, particularly in the Jizan region, still tend to be excluded from development. Similarly, the vast majority of expatriate workers earn subsistence wages at best. Average salaries earned by expatriates are less than half the level of Saudi salaries.

| Economic indicators       |          | 2007     | 2008     | 2009     | 2010            |
|---------------------------|----------|----------|----------|----------|-----------------|
| GDP                       | \$ mn.   | 384891.1 | 476304.8 | 372663.5 | <b>434666.1</b> |
| GDP growth                | %        | 2.0      | 4.2      | 0.2      | <b>3.8</b>      |
| Inflation (CPI)           | %        | 4.2      | 9.9      | 5.1      | <b>5.3</b>      |
| Unemployment              | %        | 5.6      | 5.0      | -        | -               |
| Foreign direct investment | % of GDP | 6.3      | 8.3      | 9.8      | <b>5.0</b>      |
| Export growth             | %        | 3.0      | -        | -        | -               |
| Import growth             | %        | 21.6     | -        | -        | -               |
| Current account balance   | \$ mn.   | 93379.5  | 132313.6 | 20954.6  | <b>66751.0</b>  |
| Public debt               | % of GDP | 18.5     | 13.2     | 16.0     | <b>10.8</b>     |
| External debt             | \$ mn.   | -        | -        | -        | -               |
| Total debt service        | \$ mn.   | -        | -        | -        | -               |
| Cash surplus or deficit   | % of GDP | -        | -        | -        | -               |
| Tax revenue               | % of GDP | -        | -        | -        | -               |
| Government consumption    | % of GDP | 22.3     | 19.3     | 24.9     | <b>22.5</b>     |
| Public expnd. on edu.     | % of GDP | 6.4      | 5.6      | -        | -               |
| Public expnd. on health   | % of GDP | 3.8      | 3.6      | 5.0      | -               |
| R&D expenditure           | % of GDP | 0.05     | -        | -        | -               |
| Military expenditure      | % of GDP | 9.2      | 8.0      | 11.2     | -               |

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Prices are largely free in Saudi Arabia, and the Saudi riyal has been convertible for many decades. Saudi Arabia is less statist than are most of its MENA peers. Nonetheless, despite all reform attempts of recent years, parts of the Saudi bureaucracy can be stifling. Setting up a business can be relatively cumbersome: Saudi Arabia's good position in the World Bank's 2011 Doing Business survey, at rank 11, is in part associated with administrative streamlining, but relies more on a targeted manipulation of specific regulations related to the formal indicators measured by the World Bank (in terms of enforcing contracts and closing a business, both issues that are related to judicial performance, Saudi Arabia still

Market-based  
competition

7

ranks quite low). In the Heritage Foundation's Index of Economic Freedom, Saudi Arabia has improved its ranking only slightly over the years: Traditionally falling somewhere near rank 60, it was given 54th place in 2010.

Numerous smaller initiatives have been taken by state agencies and chambers of commerce to further the development of small and medium-sized enterprises. It remains difficult for smaller entrepreneurs to operate, as personal connections are still an important facilitator in dealing with the state (and other businesses) and in obtaining credit. In such an environment, larger and more powerful players naturally have advantages. This also explains why few new large companies have come into being in recent decades; de facto, barriers to entry are fairly high.

A national competition authority has been in existence for several years, but has been largely inactive.

The informal sector is not very large in Saudi Arabia, as there are no taxes beyond the religious zakat, which is itself not very thoroughly collected. However, many formal companies circumvent formal regulations, through means such as registering under a business type different from their actual operation, failing to share data with authorities, employing foreigners informally, and so on. The bureaucracy's regulatory powers remain limited.

Regulation of competition differs from sector to sector. Telecommunications, electricity, banking and financial services all have individual regulatory agencies, each of which is active. However, the agencies tasked with oversight of telecommunications, stock markets and electricity sometimes seem weaker than they could be.

After a round of licensing in the mid-2000s, new banking licenses are no longer being issued, severely limiting market contestability.

A national competition authority was established in 2004, but little has been heard from it in terms of activity. De facto commercial oligopolies remain in place through the commercial agency system, which channels the distribution and retail of international goods through local agents. This system can be circumvented under new WTO-related rules, but in fact remains strong.

Saudi foreign trade has traditionally been rather free, although trade does on occasion encounter costly non-tariff obstacles. Further steps toward liberalization were taken in the course of WTO accession in 2005, and through the Gulf Cooperation Council (GCC) tariff integration, which remains incomplete. Tariffs, already at a low weighted average of 7.3% in 2004, were reduced further to below 5% by 2009; remaining exceptions (on dates, for example) are rather minor.

Anti-monopoly  
policy

4

Liberalization of  
foreign trade

9

Some support measures aimed at local producers, such as the provision of inexpensive gasoline, could be construed as export subsidies. As Saudi gas is not exported, however, there is no clear basis on which to argue for the existence of price discrimination.

Cumbersome shelf-life rules, inspection and documentation requirements, and product standards have been formally streamlined, although the full implementation of liberalizing measures by the government agencies involved may still take some time. With WTO accession, reform pressure has been somewhat reduced, and the Ministry of Commerce in charge of reforms is a fairly weak actor.

The Saudi financial system is well developed and generally very well capitalized. Foreign banks own minority shares in some of the big players, and banks with full foreign ownership have been licensed over the last decade, although their operations have remained relatively limited, without involving retail activities. The Saudi Arabian Monetary Agency (SAMA), the central bank, is a qualified and well-respected regulator which cooperates rather well with the banks. In the course of the international and regional financial crisis, several large business families defaulted on their loans, strongly reducing the availability of private sector credit and trust within the banking system. However, this did not endanger the existence of any of the banks, most of which have managed to remain profitable despite repeated write-offs of non-performing loans. SAMA has consistently enforced capital requirements far above the Basel II and III levels, as well as a loan-to-deposit ratio below 80%.

The Capital Markets Authority, created in July 2004, has struggled to control the more powerful actors “playing” the stock market. It has increasingly named and prosecuted market manipulators, including at least one member of the ruling family, but speculative trading continues, while financial disclosure is often limited to the legally required minimum.

International institutional investors that could improve the availability of information still tend to avoid the Saudi market, as direct investment in Saudi stocks remains impossible for foreigners. That said, the market could open up in the near future and prove fairly attractive, as it offers an array of solid blue chip stocks.

## 8 | Currency and Price Stability

Saudi Arabia has historically been quite successful in containing inflation. However, due to a combination of rapid local expansion and a peg of the riyal to a weak dollar, inflation rose to above 10% in the boom year of 2008, creating some social dislocation. It has since fallen back to around 5%, which is manageable but still above the country’s comfort zone. The central bank’s only tools for managing

Banking system

8

Anti-inflation /  
forex policy

8

inflation are the manipulation of reserve requirements and open market operations whose scope is limited due to limited flexibility with respect to interest rates.

The exchange rate has been stable, as the riyal remains pegged to the dollar, which despite much speculation over the years is unlikely to change any time soon whether a GCC currency union comes into being or not. The peg severely limits the scope of independent monetary policy, but has generally served Saudi interests well. The central bank, SAMA, is operationally independent and well respected, although politically dependent on the Ministry of Finance. SAMA's foreign assets have sharply increased in recent years, to more than \$430 billion in late 2010.

Saudi fiscal discipline has slipped somewhat in recent years: While spending increases were moderate and considerable reserves were accumulated during the early phase of the boom, spending increases have been more dramatic from 2005 on.

Thanks to very high oil prices, a significant amount of foreign assets have been accumulated despite this expenditure, and government debt has decreased from more than 100% of GDP in 1999 to about 10% in 2010.

Nonetheless, fast spending growth (nominal spending has tripled within the last decade) has contributed to inflation, and has locked in government spending at a high level that will require ever higher oil prices in order to break even.

The state remains very fiscally dependent on oil, as it levies no taxes on income, sales or value added by nationals or local companies. This means that long-term fiscal problems cannot be ruled out. There is no formal budget stabilization mechanism.

## 9 | Private Property

Property rights are generally respected, but asserting them through the court system can be time-consuming and uncertain. In some important areas, such as real estate, regulation of property rights is deficient, as there is no generally accepted public registry and powerful players can muscle their way in to obtain land deeds. The last two years have seen a number of large real estate scandals, at least one apparently involving corrupt judges.

Similarly, hundreds of thousands of small enterprises are de facto owned by foreigners, while the official Saudi owners collect no more than a monthly fee from them. Ownership rights in these "cover-up businesses" are accordingly precarious. There can also be marginal infringements on property rights by bureaucrats or princes who take commissions or demand silent shares in successful operations.

Macrostability

6

Property rights

7

Private companies dominate most sectors in Saudi Arabia. However, two strategic sectors in the kingdom – oil and petrochemicals – are totally and significantly state controlled. The state has shares in several large and important banks, including a majority share in the important National Commercial Bank. The government has a majority stake in the largest telecommunications operator and controls the (small, but expanding) national railway.

Private enterprise  
7

Most other sectors (retail and wholesale, most industries, services, etc.) are largely privately controlled. Privatization in general – including further sale of government shares in Saudi Arabian Basic Industries (SABIC), water and electricity services, Saudi Arabian Airlines, etc. – is moving ahead only slowly. A number of large independent water and power projects with foreign participation represent the most important new area of private involvement.

## 10 | Welfare Regime

In what is clearly an overstatement, Saudi Arabia is often described as a state with “cradle to grave” welfare. More precisely, it is a state which offers many public services for free or at great discount, but does not offer social security guarantees of the quality encountered in advanced European societies. Water and electricity are strongly subsidized for those within lower income brackets, while public education and health services are free, although sometimes of questionable quality.

Social safety nets  
7

There is a system of social security payments, but it is patchy and administered on a case-to-case basis, and despite considerable budget increases in recent years has proven insufficient in alleviating the kingdom’s considerable poverty problem. State pension payments are financially secured for many decades to come, but can be insufficient.

There is no unemployment insurance program, and the informal public-sector job guarantee was abrogated in the mid-1980s. However, the last three years have witnessed considerable numbers of oil-financed additions to the government payroll, and King Abdullah decreed temporary payments to unemployed Saudis in February 2011.

As family networks remain tight, many individuals are prevented from sliding into poverty thanks to assistance from wealthier relatives, but these networks are getting increasingly stretched. Benefits of the recent oil boom have not yet trickled down to the majority of the population. Millions of expatriate workers continue to live in poverty, with average wages below \$300 per month. They are politically disenfranchised and are by and large excluded from the state’s welfare systems.



Attempts to replace them with Saudis in the private sector have foundered over the latter group's higher salary expectations and unwillingness to work as many hours as do the foreigners.

In principle, the Saudi Arabian state makes public services available on a relatively broad basis, including the provision of access for women and regional and sectarian minorities. Personal relationships with government institutions can play an important role in the administration of public services, however, which can make for de facto inequality in access. Being from a peripheral region or of Shi'ite creed can be a disadvantage.

Equal opportunity  
3

King Abdullah has made a special effort to cater to peripheral regions and to women's needs, but much remains to be done. Saudi women's particular problem is that – despite formal changes to the contrary – they often still need a male intermediary to deal with the state on their behalf, which can expose them to fraud and make interaction with the rather opaque bureaucracy especially cumbersome. Although they have good access to (segregated) higher education, increasingly even to subjects once reserved for males, women's' job opportunities are largely restricted to sectors such as health and education. The government's pledges to improve conditions have not yet led to significant employment in other sectors, and have sometimes led to backlashes from conservative forces.

In 2008, Saudi Arabia ranked 92nd of 93 countries in the UNDP's gender empowerment index, with a value of 0.254.

Foreigners continue to be discriminated against on the labor market and – at least in the case of poorer expatriate workers – within the judicial system. They have practically no chance of acquiring citizenship, even if born and raised in Saudi Arabia.

## 11 | Economic Performance

The Saudi economy has weathered the international financial crisis relatively well, growing 0.6% in 2009 and an estimated 3.8% in 2010, with the private sector respectively achieving 3.5% and 3.7% growth rates. Much of this has been driven by strong increases in state spending, however, and the private sector's long-term capacity to drive growth independently of state spending remains in doubt.

Output strength  
7

While state debt has been heavily reduced, inflation remains around 5%. The trade balance is strongly positive, largely due to oil. Foreign investment has picked up from modest levels, reaching \$35.5 billion in 2009 according to the United Nations Conference on Trade and Development (UNCTAD), the eighth-highest such figure internationally.

Although the boom has been better managed than the previous such period during the 1970s and early 1980s, potential threats remain on the horizon. The economy remains precarious in the long run, as a significant reduction in oil prices would severely undermine business confidence and the state's fiscal leeway. Overseas reserves could be depleted within a decade or so. Saudi Arabia still lacks a viable tax system.

Private employment generation for Saudis still is insufficient to accommodate the estimated 200,000 new entrants to the labor market per year, as wage levels are strongly differentiated between "cheap" expatriates and more expensive Saudis in most sectors.

## 12 | Sustainability

Environmental concerns have received significant media coverage in recent years, and in the face of local gas shortages, renewable energy has become a particular focus of national debate.

State oil giant Saudi Aramco, as well as the new King Abdullah City for Atomic and Renewable Energy, created in spring 2010, are the leading players in this field.

Environmental awareness is not deeply anchored in the public or bureaucratic consciousness, however, and the formal obligation to perform environmental impact assessments for new projects is usually treated cavalierly. Powerful follow-up mechanisms are lacking. For the time being, the Saudi economy remains very energy intensive and energy inefficient due to low electricity and fuel prices.

All major cities suffer from sewage problems, and industrial spills are not uncommon. The average Saudi household produces large amounts of garbage and consumes as much energy as a U.S. household, considerably more than the European average.

Environmental  
policy  
4

Education expenditure has risen sharply in the course of the recent oil boom, reaching about a quarter of the national budget and about 9% of GDP in 2009. The quality of public education has not necessarily increased at the same rate, however. Teaching still is oriented toward rote learning, and Arabic and Islamic studies still maintain an extremely dominant position in the curricula. Under the leadership of a new minister of education, a close relative of King Abdullah, an ambitious project to retrain teachers and reform curricula has been started, but this will not show results on the ground for quite some time.

The number of private schools has grown, and recently more than a dozen private universities have been licensed, with student numbers growing from almost nothing to about 26,000 in 2008 – 2009. Access for the less affluent remains a problem, however.

As in other Arab countries, R&D spending in Saudi Arabia remains very low, with Aramco and state heavy-industry giant SABIC the only corporate entities engaging in significant research, sometimes in cooperation with the (state-run) King Abd al-Aziz City for Science and Technology. With the exception of the small University of Petroleum and Minerals, public universities are of low quality. The newly founded King Abdullah University of Science and Technology is likely to change this, however, as it has been furnished with a \$10 billion endowment and has managed to attract international faculty. In the higher education system more broadly, quantitative expansion has in recent years received more attention than qualitative upgrades.

Education policy /  
R&D

5

## Transformation Management

### I. Level of Difficulty

Structural constraints on governance in Saudi Arabia are moderate, as the state has considerable resources, has not seen major epidemics or wars for many decades, and is in an advantageous geo-economic position. Saudi Arabia remains thinly populated relative to its size, however. This increases infrastructure costs, and makes it difficult to develop peripheral regions or to avoid an overcentralization of population and economic activity in its three main city clusters. Moreover, the Saudi state suffers from capacity deficiencies due to its comparatively recent emergence, the rentier mentality of many of its employees, its limited penetration of society from a regulatory perspective, and its own penetration by clientelist networks, in significant parts. This can make consistent implementation of policies difficult.

Structural  
constraints

4

Regional civil society traditions did exist in Saudi Arabia before the onset of large-scale oil income in the 1950s. Since that time, the state has taken over many welfare functions and has generally prevented independent organization. Although there are numerous welfare societies with considerable resources, these still exist in the shadow of the state and – at least above a certain size – are tightly controlled by it. In the aftermath of the terror attacks of 2003 – 2004, religious organizations have also come under increasing control by the state. There are no powerful independent unions, syndicates or issue groups in the kingdom, leaving Saudi society deeply fragmented. The only social structures most Saudis can rely on are small-scale informal networks of kinship and friendship. Recent government attempts to set up formal interest groups in a top-down fashion have not really caught on; less political welfare associations have seen considerable expansion, however.

Civil society  
traditions

9

Regional, tribal – and in some regions, sectarian – identities in Saudi Arabia remain strong, although a strengthened sense of nationhood might have emerged in the aftermath of 9/11. The Saudi state and its patronage networks have to date been strong enough to prevent the emergence of significant, organized challenges by sub-state identities or other communities. Although there is informal discrimination,

Conflict intensity

4

violent incidents are rare (usually involving the Shi'ite minority and hard-core Sunni vigilantes). Nevertheless, the overall level of sociocultural integration remains rather low.

## II. Management Performance

### 14 | Steering Capability

Question  
Score

The political leadership under King Abdullah is committed to gradual economic and sociocultural reform; his accession to the throne represented a clear improvement over the situation of paralysis in place under King Fahd until 2005. Abdullah's opening of debate on sociocultural issues reflects a clear commitment to reforming some of the rigidities of the patriarchal Saudi society. He remains committed to careful economic opening, state-driven diversification and educational modernization.

Prioritization  
4

At the same time, Abdullah's understanding of technical issues remains limited, and he is dependent on his senior advisors, some of whom pursue their own interests. Consistent follow-up on long-term reforms has been deficient, and policy initiatives sometimes have a knee-jerk quality. Moreover, being in his late 80s, Abdullah could exit the stage any moment, making for a possible rupture in policy-making. He has had considerable health problems in late 2010 and early 2011, while his putative successor, Crown Prince Sultan, is almost as old and reportedly suffering from dementia. Claimants to the throne after Sultan are scarcely any younger, which could make for a phase of extended political paralysis and short-term policy-making. The division of the leadership into different camps and institutional fiefdoms has slowed modernization of the system.

More fundamentally, no one within the Saudi elite seems committed to substantial political change. Serious popular participation in the form of national elections, public fiscal accountability on the part of the government, or instituting freedom of organization remain off-limits within the national strategic debate. Among the senior princes, styling oneself as "reformist" or "conservative" is as often a tactical move as it is a reflection of genuine ideological conviction. The primary consideration remains survival of the regime.

Saudi Arabia does not have a serious political reform program, and the few steps that have been taken – such as municipal elections or the licensing of specific interest groups – have been inconsistently implemented, with little follow-up especially during the last three years. The oil boom has reduced pressure for political reform.

Implementation  
4

On the economic reform front, considerable modernization took place within the context of WTO accession in 2005. Since that time, economic reform initiatives have been largely limited to individual infrastructure and investment projects and the creation of a commercial court system, a venture which is still in progress. Change in general is easier to effect on the formal-legal level than on the level of bureaucratic implementation, where the atmosphere has not changed substantially since Abdullah's accession.

Although some reforms are effectively seen through – such as the creation of the new authority for atomic and renewable energy, or the involvement of private investors in the water and power sectors – others have been badly hampered by bureaucratic infighting and sluggishness.

King Abdullah is clearly a more consultative ruler than his predecessors, and is more willing to recognize new challenges and discuss change. At the same time, his age, limited education and reliance on advisors prevents him from envisaging any radical change, certainly on the political level.

Policy learning  
5

In other areas, there has been increased political flexibility, however. The handling of the current oil riches indicates that significant learning has taken place since the last oil boom, when more money was squandered more rapidly. Similarly, willingness to engage in some limited cultural opening indicates that the leadership has recognized the political problems caused by Wahhabi cultural rigidities. However, the large and immovable state apparatus, and the complex structure of political clienteles attached to it and to the al-Saud family, limits the pace of any large-scale change, and the prospect of future reform programs remains contingent on whoever accedes to the throne.

## 15 | Resource Efficiency

Resource efficiency in Saudi Arabia has by and large improved since the last oil boom, as both administrative capacity and fiscal management experience have expanded. The fiscal balance has improved tremendously during the last decade, although this is as much due to higher oil prices as to good fiscal management. The balance of current and capital spending has much improved since 2004, allowing for considerable infrastructure investment. National budget targets are regularly exceeded by more than 10%, which as an informal rule actually tends to guarantee

Efficient use of  
assets  
4

reasonably predictable macro-policies. However, when it comes to specific allocations, budgets remain non-transparent and closing accounts are not published. The Majlis al-Shura (a consultative assembly with all 150 members appointed by the king) lacks budgetary powers.

Moreover, many inefficiencies are deeply embedded in the state apparatus. King Abdullah reined in princely corruption to some extent, but large institutions such as the ministries of Interior and Defense are still unaccountable, as they are run by very senior princes who might succeed Abdullah on the throne. Many agencies remain overstaffed – even more so after the recent boom – and dismissal of surplus personnel is practically impossible. There are more Saudis employed by the state than by the private sector.

New appointments are based on reasonably competitive examinations in a considerable number of government institutions, but due to wage stagnation and low upward mobility, the public sector has ceased to be a competitive employer for the most talented Saudis.

Principles of good governance have not pervaded the bureaucracy; it remains opaque, overcentralized and unaccountable. Interministerial administrative reform committees have not produced any significant administrative reform policy proposals for the last 20 years. Still, compared to many other oil states, the efficiency of the Saudi state is decent, and it includes several “pockets of efficiency” that are tasked with high-priority functions and are relatively autonomous from the rest of the state apparatus.

Policy coordination at the top of the system has improved since King Abdullah’s accession. The strong centralization of authority within the Saudi system contributes to this. By the same token, however, redundancies and overlapping responsibilities in implementation still exist at the ministerial level and below. Interministerial coordination is strongly deficient, as communication tends to be vertical rather than horizontal, while on the level of the most senior agencies (the royal court, the ministries of defense and interior) it can be hampered by the personalization of power.

Policies and procedures which involve more than one institution often suffer from inconsistencies. Policy areas such as education and health remain fragmented, as large institutions such as the ministries of Defense and Interior have their own educational and health establishments, and the Ministry of Interior still involves itself in numerous issues of economic regulation that should be the domain of other agencies. In some cases (e.g., labor and water issues), responsibilities have been consolidated, but in others this has not been technically or politically feasible.

Policy  
coordination  
6

Corruption in Saudi Arabia has always been worst on the most senior levels of the government, but long-term observers generally agree that there has been a gradual trickle-down during the last 25 years due to slowly rising costs of living and stagnating wages. This said, administrative corruption is still less widespread than in poorer Arab countries such as Egypt or Syria, probably a result of King Abdullah's drive to selectively punish corrupt bureaucrats. Certain government institutions have traditionally been rather free of corruption, including the state oil company Saudi Aramco, the central bank (SAMA) and the Royal Commission for the Industrial Cities of Jubail and Yanbu.

Anti-corruption  
policy

4

However, there is no real public accountability for bureaucrats, as there are no disclosure requirements, the Majlis al-Shura is reluctant to deal with specific cases of misdemeanor, and the press is with some notable exceptions generally tame. A handful of intrabureaucratic integrity mechanisms such as an administrative supervision agency and a disciplinary board for bureaucrats have gained some visibility in the last two years, but these do not report systematically on their activities, and cannot touch large fiefdoms such as the ministries of Defense or Interior.

The personality of different ministers can have a significant impact on the level of corruption in different institutions. King Abdullah has curbed menial princely corruption. However, he is unable to supervise effectively what his senior brothers are doing in their respective ministries.

## 16 | Consensus-Building

The most fundamental political consensus in Saudi Arabia currently seems to pertain to the Islamic nature of the state and the al-Saud's status as ruling family (even if there is disagreement about the extent of their involvement in day-to-day politics). This is currently questioned only by marginal dissidents who lack an organizational base, as well as some radical Shi'ite oppositionists.

Consensus on goals

4

Conversely, there is no consensus on democratization, a concept that remains alien to many Saudis and is generally poorly understood, although the current regional ferment could change this. Nor is there general agreement within the elite with respect to steps toward political liberalization. King Abdullah has been willing to concede some token aspects of political opening, but this petered out around 2005, and no strong follow-up demands have been made.

Consensus on the importance of the market economy and on the need for gradual economic reform is more broad-based among senior princes, technocrats and merchant families. However, details remain disputed and vested interests in both the bureaucracy and the business sector can be powerful.



Senior princes such as Minister of Interior Naif can cast definite vetoes against specific reforms. The ‘ulama, rich merchant families and government agencies on specific policies also have some veto power, but their opposition can be overruled by powerful princes – although the princes’ cautious policy-making often prevents them from taking this step.

Anti-democratic  
actors

2

The consensual Saudi decision-process making implies that specific reforms can become stalled for considerable periods. Another major obstacle to reform is represented by hardline Wahhabis, who can muster considerable popular support against certain measures such as allowing women to drive.

Generally, even forward-looking reforms lack a democratic framework, and are not the product of democratic forces.

King Abdullah is generally perceived as a reconciler, and previously marginal groups – be it due to geography, religion or gender – generally perceive him as the best hope they have among the senior princes. He has repeatedly received Shi’ite and women’s delegations, and in his own paternalistic way is genuinely concerned about making the Saudi system inclusive, pushing the religious establishment toward a discourse of tolerance, and (limited) sociocultural pluralism.

Cleavage /  
conflict  
management

4

This does not mean that deep social cleavages have disappeared overnight, however. The al-Saud monarchy is still historically and ideologically tied to a Wahhabi Islam that is exclusivist, patriarchal and extremely conservative, and has been identified with the supremacy of elites from the Central Province of Najd. Senior royal advisors as well as leaders of the religious establishment still predominantly stem from this area, and inclusion of other groups does not automatically imply equality.

Generally, Saudi society is so strongly demobilized and dependent on the al-Saud’s patronage that large-scale clashes between sectional interests remain unlikely.

There is little “formal” civil society with which the regime can engage in the course of policy deliberation, with the notable exception of the private sector, which is relatively well organized through chambers of commerce and industry. Other formal interest groups created in the course of the 2003 – 2005 wave of reforms are still largely excluded from policy deliberation within the bureaucracy. Social interests can however be informally represented through religious, tribal and community leaders who engage with princes, or more indirectly, through the information-gathering services provided by the princes’ various hangers-on. The capacity of these channels to represent the interests of an increasingly complex society is limited, however.

Civil society  
participation

3

King Abdullah is willing to consult with others, but organized partners with whom to consult are not always available in society. The disjointed process of policy-making in the Saudi bureaucracy can also mean that social interests might be taken on board at a certain point of deliberation, but are later ignored by different institutional actors.

Saudi Arabia has not seen major atrocities or acts of mass violence in living memory, although violence has been used against Shi'ite uprisings in the Eastern Province and militant Sunni groups in the 1990s and early 2000s.

Reconciliation  
5

Due to the hegemony of Wahhabi ideology emerging from the Central Province, the main perceived injustice is that the country has socially and culturally been a very exclusive system. King Abdullah has taken significant symbolic steps toward bringing previously excluded groups (women, Shi'ites, non-Hanbali Sunnis (especially Sufis), tribes based in poor regions, etc.) back into the fold. Higher oil income has allowed the government to attend to neglected communities, and the general period of soul-searching following the 2003 – 2004 terror attacks has created space for previously marginalized voices and for the criticism of Wahhabi ideology.

This does not amount to an official apology, but still means significant decompression of the Saudi public space, now increasingly institutionalized through stronger checks on the religious police, a centralization of the issuance of fatwas in order to avoid extremist statements, and a modernization of the education system.

## 17 | International Cooperation

The Saudi government has always been relatively good at taking on board technocratic or consultant-driven advice from international organizations, both private and public. This has been demonstrated in the course of WTO accession, the management of independent water and power projects, the upgrading of capital-market regulation, and the creation of the King Abdullah University of Science and Technology.

Effective use of  
support  
5

That said, as the kingdom pays for its consultants, international actors have limited leverage over the implementation of policies, and it is in this phase that special interests in the bureaucracy can often stall or alter the course of reform.

On political issues, the rather prickly Saudi elite almost uniformly rejects international involvement. This does not mean that pressure behind the scenes never works – it did to some extent when the United States pressured the kingdom on educational and certain social reforms between 2003 and 2005. In general, however, there is a strong sense of Saudi exceptionalism, and attempts to counsel Saudis

publicly on political change tend to backfire. The increasing participation of officially licensed NGOs in international conferences and intergovernmental forums on social and human rights should be seen as a defensive move rather than as a step toward true opening.

Saudi Arabia has always pursued a very conservative foreign policy and is considered a reliable partner. However, this pertains to international diplomacy and economic cooperation, not to partnership in democratic reform. Even in matters of economic change, Saudi Arabia is very conscious of its sovereignty and has been criticized for not fully implementing international obligations (recently under the WTO), and is very reluctant to subject itself to non-Saudi judicial mechanisms. There is little cooperation with political international nongovernmental organizations (INGOs), but cooperation with development-focused bodies such as the World Bank, UNDP or the IMF has been somewhat closer. Although the country is not always an easy environment in which to operate for foreign investors, Saudi institutions are generally perceived as stable, and detrimental changes in basic economic rules do not occur.

Credibility  
6

The country has historically played a major role in the defense of the Islamic community in various international theatres of conflict, including through support of militant groups, but has scaled back these activities substantially since 2001.

Saudi Arabia has a vested interest in a calm regional environment, as this allows it to flex its economic muscle. It has thus taken a leadership role in the Arab League and the GCC to work toward economic cooperation and a nuclear-weapon-free zone in the Gulf. While its relationship with Iran significantly improved after 1997, the relationship has again deteriorated dramatically under Ahmedinejad – although the same is true of some of Iran's other neighbors. The Saudi royal elite itself is split over how to deal with Iran, some supporting aggressive military action by the United States or Israel, while other oppose any violent escalation.

Regional  
cooperation  
6

While the Saudi government does not formally recognize Israel, it has been ready to strike informal, pragmatic deals if they benefit the Palestinian cause – and, possibly, if they work to the detriment of Iran.

Historically, some Saudi institutions have a track record of supporting extremist ideologies and movements in the Islamic worlds, but these have been reined in substantially in recent years. The historically anti-Shi'ite bias of important parts of the Saudi establishment make its role as neutral arbiter suspect in areas such as Lebanon or Iraq – one of the reasons why the kingdom has recently withdrawn as mediator from the Lebanese scene.

## Strategic Outlook

Possibilities for substantive political reform in Saudi Arabia remain very limited in the short term, and they might be even more limited once King Abdullah exits the scene – in particular if there is a quick sequence of octogenarian leaders, which currently seems a plausible scenario. The kingdom does not at present have the social infrastructure for sustaining a peaceful democratic transition and an open contestation of political interests, and the interest in any such development within the elite is very muted. Interestingly, the most serious advocates of political participation are to be found among Islamists, who in the medium-term could emerge as the main partner in a transition toward meaningful participation. This has started among groups affiliated with the Muslim Brotherhood, but has now also spread among some of the groups identifying themselves as “Salafi,” and hence were originally opposed to modern democratic governance.

To prepare moves toward a more inclusive and equitable political process, meaningful civil society institutions will first have to be built. This means allowing public space for the independent organization of social interests grounded in regional, professional, religious and other identities. So far, the organizational field is only open – to a limited extent – on issues of welfare, while more political associations are tightly controlled by the regime. If the reins are loosened, civil society groups might at first be dominated by Islamists. But this does not per se prevent pluralism, as the Islamist spectrum is fairly wide in Saudi Arabia and covers quite different points of view. What is needed is a national infrastructure to aggregate interests which is not based on kinship or patron-client relations, which almost by definition are exclusive and unequal.

The comparatively more open debate over sociocultural issues since 2003 is a first, but modest step toward making Saudis accept political differences. Electoral politics can be rehearsed through civil society groups, and their gradual inclusion into policy-making processes could make for a more public style of politics. To overcome its cleavages, Saudi society needs to become used to the public interplay of different opinions and interests. Some of this has been taking place through the relaxation of media censorship and the regime-directed “national dialogue,” but society remains polarized and significant parts of the conservative spectrum remain uninterested in any kind of pluralism.

Much of the Saudi political opening will have to be negotiated domestically, and it has to be made clear to the al-Saud that relinquishing some of their control over day-to-day policy matters does not need to mean the end of their family’s rule. Quite the contrary, disengagement from daily politics could help them focus on their role as arbiter in crisis situations and as reconciler in

fundamental disputes. Disengaging from micro-issues will allow them to keep their distance from mundane problems of administrative corruption and mismanagement, which could in fact improve their legitimacy.

Reducing the role of the numerous princes in government, however, will require some tough bargaining within the royal family. The transition to a new generation of leaders after the exit of the current set of senior princes offers a chance for such a new bargain – although the transition process could backfire and lead to horse-trading that creates even more princely fiefdoms and a less centralized ruling elite.

External actors can be helpful by publicly accepting that Saudi Arabia has to find its own way toward participatory politics, while remaining firmly behind the basic vision of introducing participatory elements. States, IGOs and INGOs can help assist with the development of Saudi civil society, but should do so carefully and in reaction to local demands, not on the basis of external ideas of what Saudi society should look like. Sociocultural reform moves have also opened more opportunities for cultural and educational cooperation, for which there is great interest in Saudi society.

International institutions and media organizations should highlight the importance of reformist voices in the kingdom, and give them international platforms. There is great interest among the often highly educated and internationally oriented Saudi intellectuals in communicating with international peers and civil society institutions, but there are as yet too few connections. The Saudi setting, although ossified, is relatively pluralist, and has many access points for discussion, research and exchange. Foundations run by liberal princes can be used to increase international communication. Fledgling interest groups, even if controlled by the state, can be given technical assistance and integrated into international structures.

The scope for international cooperation on the economic level is much wider, as Saudi Arabia has a long track record of cooperation with bilateral committees, international agencies and consultancies. International players can draw on a broad stratum of sophisticated technocrats with Western education, and they should play on the strong Saudi interest in international benchmarking and “best practices” to support further economic reform.

While basic issues of economic governance such as trade regulations, stock market oversight and foreign investment rules have been reformed fairly successfully, the kingdom still struggles with severe underemployment among its citizens – the main socioeconomic challenge for the coming decades. It is here that international players can provide useful policy input on labor market, immigration and civil service reform with a view to orienting Saudis toward, and preparing them for, private sector employment.